

TENNESSEE HOUSING MARKET

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Economic Overview

Tennessee's economy improved somewhat during the third quarter, as employment gains pushed the unemployment rate down to 9.6 percent from 10.3 percent in the previous quarter. The unemployment rate remains very high, however, 16th highest among the 50 states (Table 1).

Initial claims for unemployment insurance fell during the third quarter following a rise in the previous quarter (Figure 1). An important indicator of the future unemployment rate, initial claims averaged 6,800 a week, moving closer to the pre-recession level of 6,000 per week.

Payroll employment, however, showed little change in the third quarter. Of particular interest is the fact that manufacturing continued to show positive job growth in Tennessee, adding 2,400 jobs from the previous quarter. Job growth in the services-providing sectors dipped, however, due to losses in the financial industry and the information sector. Gains in manufacturing and losses in the services sectors are just the opposite of pre-recession trends.

Housing Construction

Single-family home construction activity dropped sharply during the third quarter, falling 19 percent from the previous quarter (Table 2). The third-quarter level of 10,100 units is one of the lowest since the beginning of the recession (Figure 2). Activity

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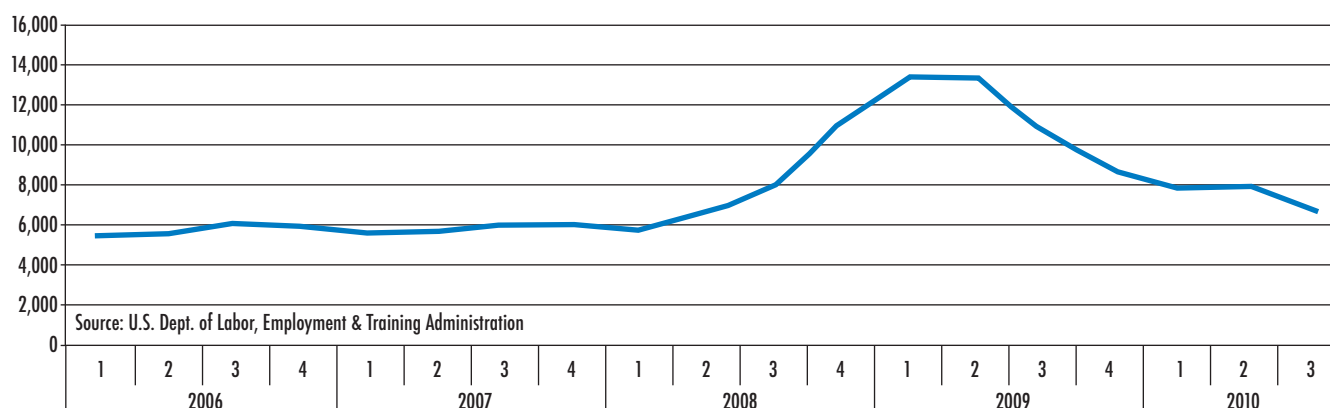
Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

Employment by industry (nonfarm)	2009.1	2009.2	2009.3	2009.4	2010.1	2010.2	2010.3
Total nonfarm	2,670.9	2,619.4	2,596.4	2,592.7	2,594.0	2,610.0	2,607.0
Goods-producing sectors	443.4	419.4	409.3	405.0	403.1	406.8	407.8
Manufacturing	326.6	309.1	302.4	301.1	300.8	303.4	305.8
Services-providing sectors	2,227.4	2,200.0	2,187.1	2,187.7	2,190.8	2,203.2	2,199.2
Labor force	3,045.3	3,030.1	3,010.5	2,995.4	3,002.4	3,033.6	3,038.2
Total employment	2,752.8	2,705.9	2,683.4	2,674.1	2,682.1	2,721.1	2,746.9
Unemployed	292.5	324.3	327.0	321.3	320.3	312.4	291.3
Unemployment rate	9.6%	10.7%	10.9%	10.7%	10.7%	10.3%	9.6%

Source: Bureau of Labor Statistics

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



**Table 2. Permits issued for privately owned new housing** (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2007.2	29.3	528.3	1,031.7	5.5	204.3	425.0	34.9	732.7	1,456.7
2007.3	27.0	474.7	916.3	8.1	163.3	398.0	35.1	638.0	1,314.3
2007.4	22.3	414.0	786.0	7.8	175.3	402.3	30.1	589.3	1,188.3
2008.1	18.7	366.3	671.3	5.8	170.0	353.7	24.5	536.3	1,025.0
2008.2	17.4	333.7	633.0	2.2	152.7	428.0	19.6	486.3	1,061.0
2008.3	15.4	283.7	547.7	7.0	162.7	311.0	22.3	446.3	858.7
2008.4	9.9	215.3	417.7	4.6	106.3	221.0	14.5	321.7	638.7
2009.1	10.7	202.7	366.7	2.6	83.0	179.0	13.3	285.7	545.7
2009.2	11.1	222.7	423.7	2.9	67.3	134.0	14.0	290.0	557.7
2009.3	12.6	248.7	478.0	1.9	54.7	122.7	14.6	303.3	600.7
2009.4	13.4	254.0	491.3	2.2	56.3	134.7	15.6	310.3	626.0
2010.1	13.5	270.7	524.7	6.3	57.3	130.0	19.8	328.0	654.7
2010.2	12.6	235.0	447.7	3.4	60.7	141.3	16.0	295.7	589.0
2010.3	10.1	207.0	403.7	5.2	69.3	155.3	15.3	276.3	559.0
Change from previous quarter	-19.4%	-11.9%	-9.8%	52.7%	14.3%	9.9%	-4.1%	-6.5%	-5.1%
Change from previous year	-19.6%	-16.6%	-15.6%	164.8%	26.8%	26.6%	5.1%	-8.9%	-6.9%

Source: Census Bureau

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during the previous four quarters had ranged between 12,500 and 13,500 units; the demise of the homebuyers' tax credit, growing uncertainty regarding the economic recovery, and very slow job growth are the likely causes of the decline. The South and the United States also experienced decreases during the third quarter, but these declines were not as severe as Tennessee's.

Multi-family construction activity provides an altogether different picture, with activity 52 percent higher in Tennessee from the previous quarter. Over the year, multi-family permit activity has more than doubled, albeit from very low levels. Reports of higher rents and occupancy rates for apartments offer more evidence of increased demand for multi-family housing. The same trend is noticeable for the southern and U.S. markets, with

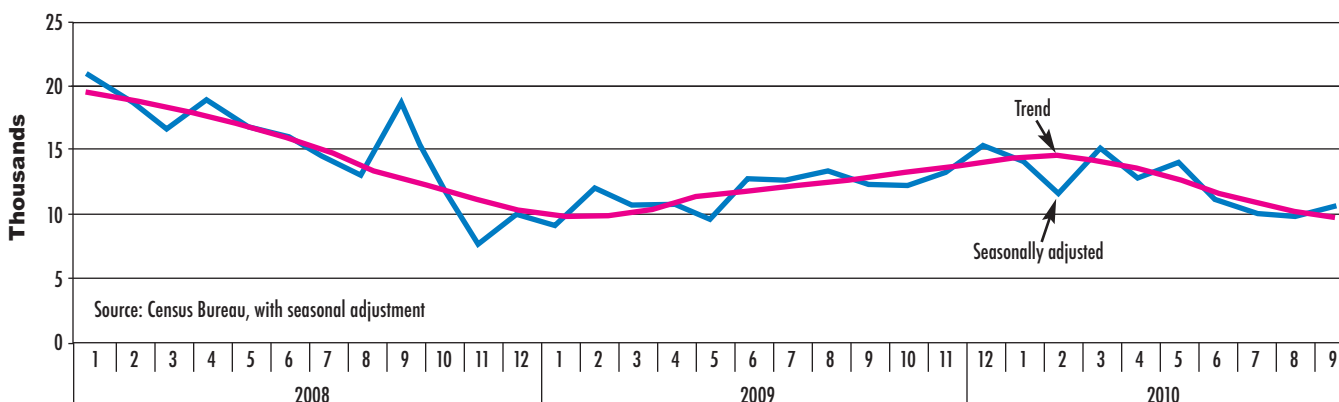
both areas experiencing large increases from the previous quarter and previous year.

The large upsurge in multi-family permits is sufficient to cause total permits (the sum of single-family and multi-family) to show a gain over the year, with Tennessee rising by 5.1 percent. Compare this with over-the-year losses in the South and the United States.

Real Estate Transactions and Mortgages

Tax collections from real estate transactions declined, down 10.8 percent from the second quarter. The trend of transaction tax collections clearly shows the effects of the homebuyers' tax

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Figure 2. Tennessee single-family home permits (seasonally adjusted annual rate, thousand units)



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credit, as homebuyers rushed to buy, followed by a period of reduced activity (Figures 3 and 4). The current level of activity is similar to that of the recession low in the first and second quarters of 2009.

By contrast, mortgage tax collections jumped 11 percent during the third quarter, boosted by increased refinancing activity due to lower mortgage rates. Compared with last year, however, mortgage tax collections are still down, declining from the peak in 2006.

Home Sales

Not unexpectedly, home sales dropped to a recession low during the third quarter in the three metropolitan areas tracked by this

report (Figures 5-7), with all three areas experiencing declines of more than 20 percent from the second quarter. Third quarter home sales are now at the lowest level since the beginning of the recession. Lower sales are partly due to the expiration of the tax credit but also likely reflect increased uncertainty and frustration regarding the very slow pace of job growth during this recovery. Home sales may well bounce back a bit in the fourth quarter, as the market searches for a new equilibrium without the tax credit in the background.

Mortgage Delinquencies and Foreclosures

Mortgage delinquencies and foreclosures present a mixed bag for the third quarter: mortgages past due have increased, but foreclosures started during the quarter are lower for Tennessee

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Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)

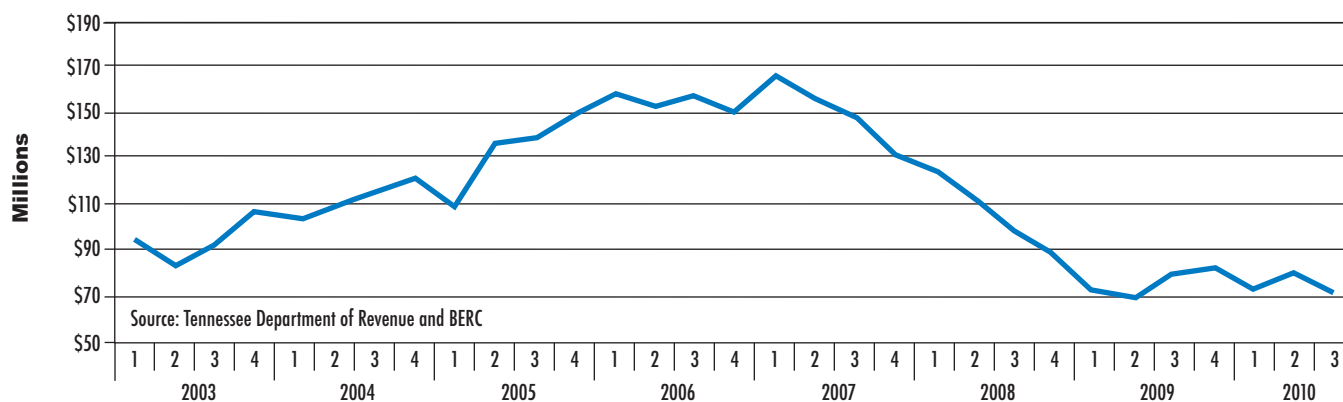
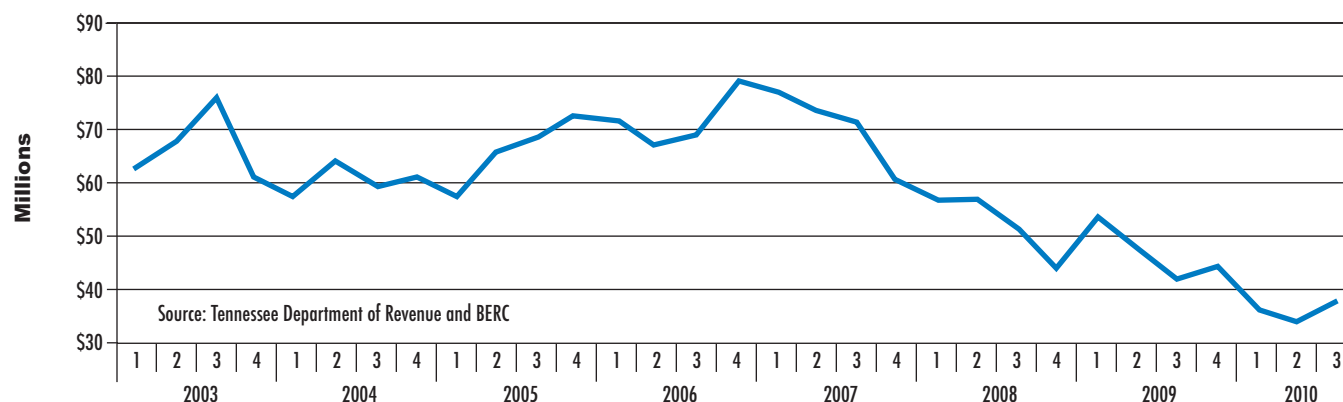


Figure 4. Mortgage tax collections (seasonally adjusted annual rate)



**Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory**

(% of mortgages serviced, seasonally adjusted except foreclosure inventory)

Quarter	Tennessee			United States		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2008.1	7.73	0.71	1.50	6.35	0.99	2.47
2008.2	7.96	0.77	1.52	6.41	1.19	2.75
2008.3	8.35	0.77	1.58	6.99	1.07	2.97
2008.4	9.16	0.83	1.77	7.88	1.01	3.30
2009.1	10.03	0.93	1.98	9.12	1.34	3.85
2009.2	10.33	0.99	2.17	9.24	1.47	4.30
2009.3	10.62	1.02	2.26	9.64	1.42	4.47
2009.4	10.48	0.88	2.34	9.47	1.14	4.58
2010.1	10.82	0.98	2.41	10.06	1.17	4.63
2010.2	10.88	0.86	2.23	9.85	1.17	4.57

Source: Mortgage Bankers Association of America and BER

Note: Table includes revisions to previous quarters.

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(Table 3). Past due mortgages rose somewhat to 10.88 percent of all mortgages, compared with 10.82 percent for the previous quarter. The continuing high level of past due mortgages is an outcome of high unemployment and slow labor market gains, as more households experience financial stress.

New foreclosures dipped to 0.86 percent of all mortgages in Tennessee from 0.98 percent for the previous quarter, returning to about the same level as in the fourth quarter of 2009. We should take little comfort from this improvement, as it may simply reflect administrative backlogs and slower processing due to questions about the validity of some of the foreclosure processing apparatus.

Home Prices

The price of existing homes continued to decline during the third quarter but at a slower pace, according to the Housing Price Index computed by the Federal Housing Finance Agency (Table 4). Though the state and most metropolitan areas moved a little closer to price stability, this goal still remains elusive. Of the 10 metropolitan areas in Tennessee, eight experienced a slower rate of price decline over the year. For example, home prices dropped 3.9 percent for the state during the third quarter, compared with a 4.6 percent first-quarter decline. Only one metropolitan area, the Clarksville MSA, experienced a very modest price increase over the year, up 0.2 percent, and the Johnson City MSA edged very close to price stability, down just 0.3 percent over the year.

Conclusion

On balance, the housing market took a step backward during the third quarter, as single-family home construction and home sales slipped to near the lowest levels since the beginning of the recession. Rising multi-family construction activity takes some of the sting out of the decline in single-family homes, and home prices showed some improvement. This is a quarter in which the background economic conditions improved, but the particular situation for the housing market did not.

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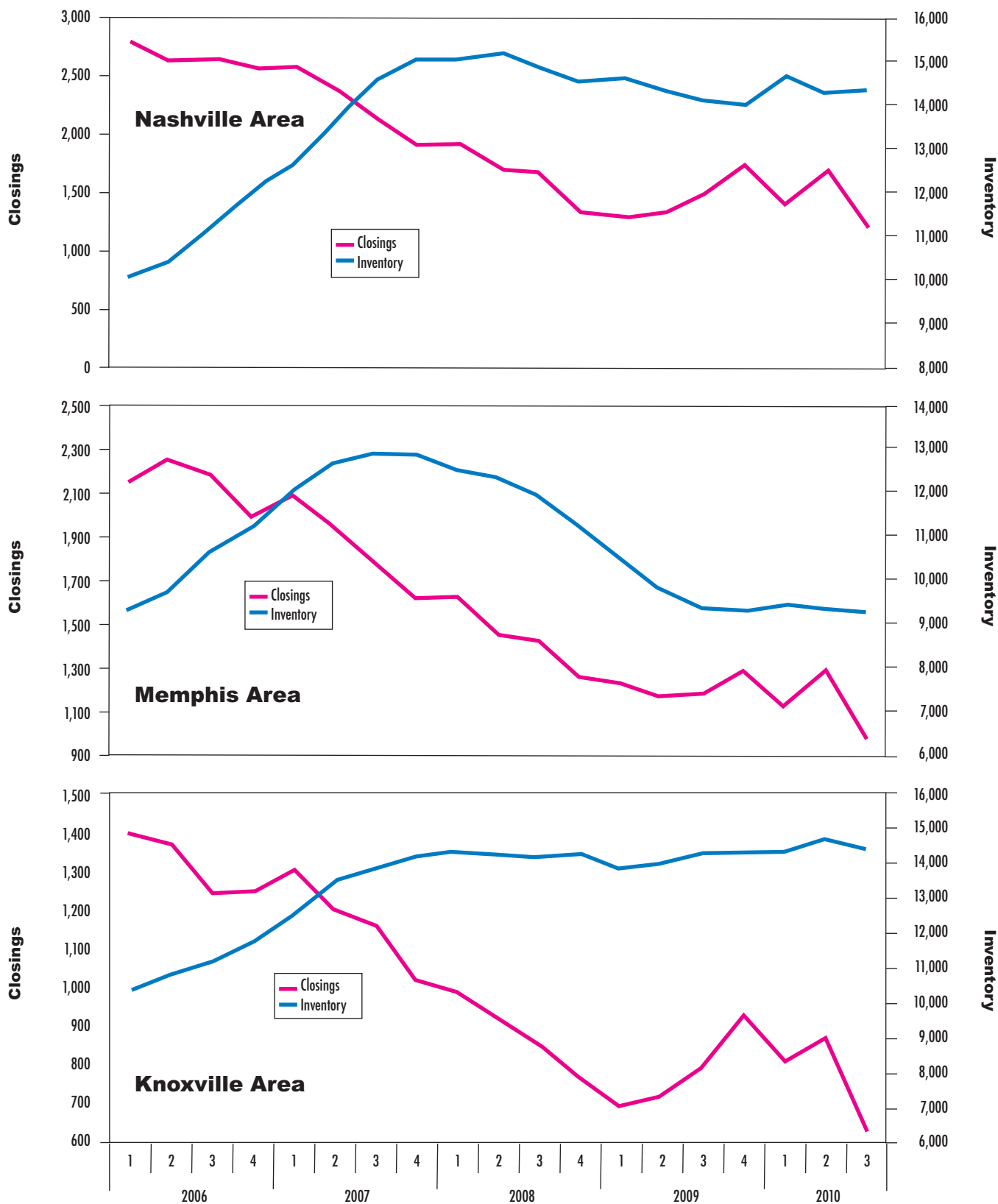
Table 4. Change in housing prices over the year

Area	2009.1-2010.1	2009.2-2010.2
U.S.	-6.7%	-4.9%
Tennessee	-4.6%	-3.9%
Chattanooga MSA	-3.3%	-2.7%
Clarksville MSA	-0.5%	0.2%
Cleveland MSA	-3.2%	-3.2%
Jackson MSA	-5.8%	-1.2%
Johnson City MSA	-1.4%	-0.3%
Kingsport-Bristol MSA	-1.6%	-1.6%
Knoxville MSA	-3.5%	-4.0%
Memphis MSA	-6.4%	-5.4%
Morristown MSA	-6.6%	-7.5%
Nashville MSA	-4.9%	-3.7%
Nonmetro areas of the state	-5.4%	-4.3%

Source: Federal Housing Finance Agency All Transactions Index



Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)



Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, Knoxville Area Association of Realtors, and BERC